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TO USDEL SECRETARY IMMEDIATE

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EXDIS

E.O. 11652: GDS

TAGS: PFOR, ENRG, IS, EG, US

SUBJECT: ACTION MEMORANDUM: MEETINGS WITH FAHMY AND
ALLON ON AMOCO (S/S NO. 7619969)

FOR SECRETARY FROM ATHERTON THROUGH HABIB

1. THE PROBLEM. EGYPT HAS EXTENDED AMOCO'S DEADLINE FOR DRILLING AT SITE 304.1 UNTIL OCTOBER 31 TO PERMIT AN ARRANGEMENT TO BE WORKED OUT BETWEEN US AND THE ISRAELIS. IF NO UNDERSTANDING HAS BEEN REACHED BY THAT DATE, THE EGYPTIANS HAVE SAID THEY INTEND TO UNDERTAKE DRILLING AT THE SITE UNDER THE PROTECTION OF THEIR GUNBOATS. EGYPT SEEMS DETERMINED TO PRESS FOR THE START OF DRILLING. IF THE U.S., ISRAEL AND EGYPT CANNOT WORK OUT AN UNDERSTANDING AND AN EGYPTIAN-ISRAELI CONFRONTATION OCCURS, THE EGYPTIANS WILL EXPECT US TO SUPPORT THEM POLITICALLY, AND IT IS DIFFICULT TO SEE HOW WE COULD DO OTHERWISE GIVEN OUR LEGAL POSITION AND THE HISTORY OF THIS ISSUE.

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2. WE NEED TO WORK OUT AN ARRANGEMENT WITH ALLON THAT WILL PERMIT AMOCO TO MEET ITS DEADLINE WHILE DEFERRING RESOLUTION

OF THE GENERAL QUESTION OF EXERCISE OF AMOCO'S RIGHTS

EAST OF THE ISRAELI-DRAWN MEDIAN LINE AND THE ISSUE OF ISRAEL'S OWN DRILLING PLANS IN THE GULF.

3. BACKGROUND. CONTRARY TO OUR EXPECTATIONS, BASED ON CONCILIATORY HINTS BY RABIN, DINITZ AND OTHERS, THE ISRAELIS TOOK A VERY HARD LINE IN THE SEPTEMBER 16-17 DISCUSSIONS IN WASHINGTON; I.E., NO DRILLING BY AMOCO AT 304.1 UNLESS WE RENOUNCED ACTIVE SUPPORT FOR ANY OTHER SUCH ACTIVITY BY AMOCO EAST OF THE ISRAELI-CLAIMED MEDIAN LINE FOR THE INDEFINITE FUTURE. SINCE WE WERE CLEARLY UNABLE TO ACCEPT SUCH A CONDITION, AND THE ISRAELI DELEGATION HAD NO AUTHORITY TO ACCEPT OUR PROPOSALS, THE TALKS COULD NOT RESOLVE THE ISSUE, WHICH IS NOW TO BE JOINED BY YOU AND ALLON. THE TALKS DID GIVE US A BETTER UNDERSTANDING OF THE ISRAELI POSITION AND OUR DIFFERENCES. WE HAVE NO INDICATION THAT ALLON WILL HAVE ANY MORE FLEXIBILITY ON THE SUBJECT THAN EVRON AND DINITZ HAD, BUT YOUR PERSONAL INTERVENTION WITH ALLON WILL AT LEAST FLUSH OUT WHETHER THERE ARE POSSIBILITIES OF BRIDGING THE GAP BETWEEN OUR POSITIONS.

4. ONE USEFUL RESULT OF THE SEPTEMBER 16-17 MEETINGS WAS OUR DISCOVERY (OF WHICH WE BELIEVE THE ISRAELIS ARE STILL NOT AWARE) THAT ISRAEL'S RECKONING OF THE MEDIAN LINE IS ABOUT ONE OR TWO KILOMETERS EAST OF WHERE AMOCO AND WE HAD BELIEVED IT TO BE. SEVERAL SITES THAT AMOCO HAD BELIEVED TO BE EAST OF THE LINE ARE, BY ISRAEL'S DEFINITION, WEST OF IT AND THEREFORE NOT UNDER THEIR CLAIMED JURISDICTION. THE DISCOVERY OF THIS DISCREPANCY ALSO REVEALED THAT WHAT HAD SEEMED A PATTERN OF CAPRICIOUS HARASSMENT IN THE RAMADAN FIELD MAY HAVE BEEN QUITE CONSISTENT; THE ISRAELIS HAD ALL ALONG BEEN INTERDICTING ALL AMOCO OPERATIONS IN THE RAMADAN AREA EAST OF THEIR MEDIAN LINE AS THEY DEFINE IT.

5. U.S. OBJECTIVES. BECAUSE OF BOTH THE UNEXPECTEDLY
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HARD ISRAELI LINE AND THE DISCOVERY OF THE STRIP WEST OF THE MEDIAN LINE, OUR IMMEDIATE OBJECTIVE CAN PROBABLY BE SOMEWHAT MORE MODEST THAN IN THE LAST ROUND OF DISCUSSIONS. AT THIS POINT ISRAELI AGREEMENT NOT TO INTERFERE WITH AMOCO'S DRILLING AT SITE 304.1, WITHOUT PREJUDICE TO ANY FUTURE ACTIVITIES, SHOULD BE SUFFICIENT TO DEFUSE THE SITUATION FOR THE TIME BEING AND AVERT A CONFRONTATION BETWEEN EGYPT AND ISRAEL. WE SHOULD TRY TO AVOID ANY EXPLICIT QUID PRO QUO, BUT MIGHT, IF PRESSED, AGREE INFORMALLY NOT TO BACK ANY FURTHER AMOCO EFFORTS FOR A LIMITED PERIOD--SAY, THREE TO FOUR MONTHS--AND NOT TO CITE

ISRAEL'S ACQUIESCENCE ON THIS OCCASION AS PREJUDICING ITS POSITION REGARDING FUTURE INSTANCES. WE COULD ALSO ASSURE

THE ISRAELIS THAT WE SEE NO DRAMATIC EASTWARD MOVES IN STORE BEYOND THAT PERIOD.

6. AT SOME FUTURE DATE WE WILL, OF COURSE, HAVE TO ADDRESS THE FAR MORE DIFFICULT ISSUES OF AMOCO'S ACCESS TO OTHER PARTS OF ITS PRE- AND POSSIBLY EVEN ITS POST-1967 CONCESSIONS AND ISRAEL'S OWN PLANS TO EXPLORE FOR OIL IN THE GULF. THE LATTER WILL BECOME AN INCREASING SOURCE OF FRICTION BETWEEN ISRAEL AND EGYPT AS ISRAEL PROCEEDS WITH AN EXPLOITATION PROGRAM. ATTEMPTING TO RESOLVE THESE ISSUES IN CONNECTION WITH THE IMMEDIATE DRILLING PROBLEM IS LIKELY TO REDUCE THE POSSIBILITY OF AN EARLY AGREEMENT, ALTHOUGH SOME MENTION OF THESE ISSUES MAY HAVE TO BE MADE.

7. ISRAELI POSITION AND OBJECTIVES. ISRAEL'S POSITION IS THAT IT HAS DE JURE AS WELL AS DE FACTO CONTROL OF THE WATERS EAST OF THE MEDIAN LINE UNDER THE POST-1967 STATUS QUO, AND THAT NOTHING CAN TAKE PLACE THERE WITHOUT CONSULTATION AND, IN EFFECT, ITS CONSENT. THE ISRAELIS SAY THEY TOLERATE THE OPERATION BY AMOCO OF THE MORGAN FIELD EAST OF THE MEDIAN LINE BECAUSE IT WAS ALREADY IN OPERATION AND PART OF THE STATUS QUO WHEN THE ISRAELIS TOOK CONTROL IN 1967 AND NOT OUT OF ANY GENERAL RECOGNITION OF AMOCO'S RIGHT TO DEVELOP ITS PRE-WAR CONCESSIONS. SINCE JUNE 1967, THEY CLAIM THEY HAVE PERMITTED NO NEW DRILLING IN MORGAN EAST OF THE EASTERNMOST PRE-WAR WELL AND THAT ALL EXISTING WELLS IN THE RAMADAN FIELD ARE WEST
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OF THEIR CLAIMED MEDIAN LINE. THUS, IN THE ISRAELI VIEW, AMOCO'S DRILLING AT 304.1 WOULD BE A BREAK WITH A NINE-YEAR PRECEDENT, AND FREE ACCESS TO ITS CONCESSION AREAS WOULD AMOUNT TO NOTHING LESS THAN A FUNDAMENTAL ALTERATION OF THE STATUS QUO, WHICH ISRAEL HOLDS CAN ONLY BE CHANGED AS A RESULT OF NEGOTIATIONS WITH EGYPT.

8. ISRAEL'S PRIMARY NEGOTIATING OBJECTIVE IS TO GET US TO RECOGNIZE ITS CONTROL OF THE SOUTHEASTERN GULF AND THE NEED FOR AMOCO TO OBTAIN ITS PERMISSION TO OPERATE THERE. EVEN IF WE WERE TO GRANT THIS POINT, HOWEVER, ISRAEL HAS CLAIMED -THAT IT WOULD NOT AGREE IN TALKS WITH THE U.S. TO ANY SIGNIFICANT ACTIVITY BY AMOCO IN ITS ZONE OF CONTROL.

9. ISRAEL'S ULTIMATE OBJECTIVES IN GETTING US TO ACCEPT ITS POSITION ARE:

-- TO PROTECT WHAT IT NOW CONSIDERS ITS RIGHTS AS AN OCCUPYING POWER AND TO PREVENT ANY DEROGATION FROM THESE RIGHTS, WHICH ISRAEL INSISTS CAN ONLY BE ALTERED IN NEGOTIATIONS WITH THE EGYPTIANS, AND

-- TO BLUNT OUR OPPOSITION TO ITS OWN PLANNED OIL DRILLING IN THE EASTERN GULF OUT TO THE MEDIAN LINE, AT LEAST IN THOSE AREAS NOT COVERED BY PRE-1967 CONCESSIONS. (SINCE EVRON REAFFIRMED ISRAEL'S OWN DRILLING PLANS AT THE LAST ROUND, IT MAY BE NECESSARY TO ADVERT TO OUR VIEW ON THIS IN ORDER TO AVOID ENCOURAGING ISRAEL TO THINK THAT IT MAY BE ABLE TO SECURE CONTINUING TACIT U.S. ACQUIESCENCE.)

10. ON THE OTHER HAND, THE ISRAELIS HAVE A CLEAR INTEREST IN AVOIDING A PUBLIC CONFRONTATION WITH THE UNITED STATES OR, PERHAPS WORSE, AN UNRAVELLING OF THE INTERIM AGREEMENT. THIS MAY BE THE STRONGEST AND PERHAPS THE ONLY READILY AVAILABLE LEVERAGE WE HAVE, ASSUMING THIS IS NOT A TIME TO USE THE THREAT OF LIMITING U.S. ASSISTANCE AND SUPPORT. HOWEVER, AS ALLON WAS DEPARTING ISRAEL FOR NEW YORK, SHIMON PERES SAID PUBLICLY THAT HE THOUGHT THE "RESPITE" THAT HAD BEEN GRANTED ISRAEL IN THE GULF OF SUEZ WOULD LAST UNTIL AFTER THE U.S. ELECTIONS.

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11. EGYPTIAN POSITION AND OBJECTIVES. EGYPT'S PRIMARY OBJECTIVE IS TO INCREASE PRODUCTION OF OIL FROM GULF OF SUEZ WELLS AS RAPIDLY AS POSSIBLE. MINISTER OF PETROLEUM HILAL HAS PROMISED PRESIDENT SADAT THAT EGYPT WILL BE PRODUCING ONE MILLION BARRELS OF OIL A DAY BY 1980. IN ORDER TO FULFILL THAT FORECAST, PRODUCTION MUST BE MAXIMIZED IN THE IDENTIFIED FIELDS IN THE GULF, ESPECIALLY RAMADAN, MORGAN AND THE NEW SOUTHERN FIELD. EGYPTIAN ECONOMIC RECOVERY IS DIRECTLY RELATED TO EXPANDING OIL PRODUCTION, AND THE VERY VIABILITY OF THE SADAT REGIME MAY DEPEND ON THE ECONOMY'S DOING WELL. SADAT HAS PROMISED HIS GOVERNMENT WOULD CONCENTRATE ON ECONOMIC MATTERS AND THEREBY CREATE A BETTER LIFE FOR THE PEOPLE. HE MUST HAVE SOME VISIBLE RESULTS SOON OR RISK GROWING DOMESTIC UNREST.

12. WE EXPECT THE EGYPTIANS TO MAINTAIN FIRMLY THEIR POSITION THAT THE GULF IS SOVEREIGN EGYPTIAN TERRITORY, NOT UNDER ISRAELI OCCUPATION. WHILE UPHOLDING THIS PRINCIPLE, EGYPT HAS IN ITS WRITTEN ARRANGEMENTS WITH AMOCO RECOGNIZED THE REALITY THAT ISRAEL CONTROLS THE EASTERN

PORTION OF THE GULF. THE 1964 CONCESSION AGREEMENTS AS CONSOLIDATED IN 1976 CONTINUE TO HAVE A FORCE MAJEURE PROVISION, AND THE 1974 AGREEMENTS HAVE A PROVISION THAT SPEAKS OF "SPECIAL CIRCUMSTANCES" WHICH PREVENT THE COMPANY FROM WORKING ITS CONCESSION. THE EGYPTIAN GOVERNMENT HAS RECOGNIZED THE APPLICABILITY OF THESE PROVISIONS TO ALL AMOCO CONCESSIONS THAT LIE IN A CERTAIN EASTERN PORTION OF THE GULF OPPOSITE THE ISRAELI-OCCUPIED SINAI COAST, EXCEPT FOR THE MORGAN FIELD AND A STRIP OF OTHER BLOCKS IN THE PRE-1967 CONCESSION AREA ADJACENT TO OR STRADDLING THE MEDIAN LINE.

13. EGYPT HAS INDICATED IT WANTS THE AMOCO DRILL RIG TO RETURN TO SITE 304.1 BEFORE THE EXPIRATION OF THE OCTOBER 31 DEADLINE AND IS PREPARED TO ASSIGN EGYPTIAN GUNBOATS TO ACCOMPANY THE AMOCO RIG OR, IF NECESSARY, TO DRILL THERE ITSELF. UNIMPEDED EXERCISE OF THE RIGHT OF AMOCO TO DRILL AT SITE 304.1 IS, THEREFORE, BASIC TO A SETTLEMENT. IT DOES NOT APPEAR THAT EGYPT WILL
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INSIST THAT AMOCO BE PERMITTED NOW TO DRILL IN ITS 1974 CONCESSIONS WHICH LIE GENERALLY IN THE EASTERN PORTION OF THE GULF, SOUTH OF ABU RODEIS. EGYPT WILL WANT AMOCO TO HAVE SUFFICIENT FREEDOM OF OPERATION, HOWEVER, SO THAT THE COMPANY CAN DEVELOP THE IDENTIFIED PRODUCING OIL FIELDS THAT STRADDLE THE MEDIAN LINE WITHOUT ISRAELI HARASSMENT.

14. EGYPT WILL ALSO LIKELY OPPOSE ANY ISRAELI PLANS FOR ISRAEL OR ISRAELI CONTRACTORS TO DRILL FOR OIL IN THE GULF. WHILE THE EGYPTIANS HAVE NOT MADE AN ISSUE OF THE ONE WELL THE ISRAELIS HAVE DRILLED IN THE GULF, THEY WOULD OPPOSE VIGOROUSLY, WITH THE ENCOURAGEMENT OF AMOCO, ANY SUBSTANTIAL ISRAELI EXTRACTIONS FROM THE GULF OR ANY SUGGESTION BY US THAT EVEN THESE EXPLORATORY ACTIVITIES WERE OR ARE NOW ACCEPTABLE.

15. POSSIBLE OUTCOMES. ALTHOUGH WE BELIEVE THAT YOU SHOULD CONCENTRATE ON SHORT-TERM OBJECTIVES IN THIS MEETING, WE ENVISAGE FIVE THEORETICAL OUTCOMES, THREE BASED ON COMPROMISE AND TWO INVOLVING CONFRONTATION:

(1) A MODEST AGREEMENT WHEREIN AMOCO IS PERMITTED TO DRILL AT 304.1 IN RETURN FOR AN UNDERTAKING BY THE U.S. NOT TO PRESS ISRAEL OVER THE NEXT FEW MONTHS TO ACQUIESCE IN ADDITIONAL AMOCO OPERATIONS, WITH ALL OTHER ISSUES DEFERRED;

(2) AN ARRANGEMENT INVOLVING THE COMMENCEMENT OF WORK AT SITE 304.1 IN RETURN FOR OUR AGREEING TO TAKE THE POSITION THAT EGYPT SHOULD NEGOTIATE DIRECTLY WITH ISRAEL ON FURTHER AMOCO DRILLING;

(3) A MORE AMBITIOUS AGREEMENT PERMITTING UNENCUMBERED ACTIVITY BY AMOCO IN A SIGNIFICANT BUT STILL LIMITED AREA EAST OF THE MEDIAN LINE IN EXCHANGE FOR BROAD CONCESSIONS BY THE U.S.--E.G., OUR AGREEING ISRAEL'S PERMISSION IS NECESSARY FOR AMOCO DRILLING EAST OF THE MEDIAN LINE--THAT ARE ACQUIESCED IN BY EGYPT;

(4) COMPLETE ISRAELI INTRANSIGENCE, LEADING TO PUBLIC RECRIMINATION WITH THE UNITED STATES, ARMED CONFRONTATION
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WITH EGYPT AND PROBABLE UNRAVELLING OF THE GAINS OF SINAI II;

(5) ISRAELI AGREEMENT TO DESIST FROM HARASSMENT UNDER INTENSE U.S. PRESSURE.

16. EACH OF THESE POSSIBLE OUTCOMES IS EXAMINED BELOW:

(1) A SHORT-TERM COMPROMISE. SINCE THE LAST INCONCLUSIVE MEETING, THE DISCOVERY OF AN ADDITIONAL STRIP OF UNCHALLENGED EGYPTIAN WATER BETWEEN ISRAEL'S AND AMOCO'S NOTIONS OF THE MEDIAN LINE, AND AMOCO'S EXPLORATION TIME-TABLE, MAY GIVE US SOME ADDITIONAL FLEXIBILITY. AMOCO'S PRELIMINARY THINKING IS THAT FULL DEVELOPMENT OF THE "DISCOVERED" STRIP MIGHT KEEP THE COMPANY BUSY FOR ABOUT THE NEXT ONE TO THREE MONTHS, AND THE COMPANY HAS PROMISED TO GIVE US A MORE PRECISE ESTIMATE LATER THIS WEEK. MOREOVER, ONCE DRILLING BEGINS AT 304.1, IT WILL TAKE UP TO 90 DAYS TO DETERMINE IF THERE IS OIL AT THE SITE, AND IF OIL IS DISCOVERED, AN ADDITIONAL 15 DAYS TO TWO MONTHS WILL BE REQUIRED TO DEVELOP THE SITE. THEREFORE, DEPENDING ON THE COMPANY'S MORE PRECISE ESTIMATE, WE COULD CONCEIVABLY BE IN A POSITION TO OFFER ISRAEL A THREE-TO-SIX MONTH MORATORIUM ON U.S. PRESSURES ON ISRAEL TO PERMIT FURTHER AMOCO ACTIVITY EAST OF THE MEDIAN LINE IN EXCHANGE FOR AN ISRAELI GO-AHEAD AT 304.1. THE ISRAELIS WOULD PROBABLY CLAIM AMERICAN CAPITULATION TO THEM, BUT WE COULD WEATHER THIS BY MAKING CLEAR THE TEMPORARY AND NON-PREJUDICIAL NATURE OF OUR AGREEMENT.

17. (2) A COMPROMISE INVOLVING AN EGYPTIAN-ISRAELI NEGOTIATION. IF WE LEARN FROM AMOCO THAT WORKING THE ADDITIONAL STRIP OF WATER WILL NOT KEEP THE COMPANY BUSY FOR ANY LENGTH OF TIME, OR IF YOU CONCLUDE THAT THE OFFER

TO ISRAEL OF A THREE-TO-SIX MONTH MORATORIUM ON U.S. PRESSURES IS UNLIKELY TO OBTAIN FOR AMOCO AN ISRAELI PLEDGE OF NON-INTERFERENCE AT 304.1, WE COULD ASK ISRAEL FOR SUCH A PLEDGE IN RETURN FOR OUR TAKING THE POSITION THAT EGYPT AND ISRAEL SHOULD ENTER INTO A NEGOTIATION OF A REGIME FOR OIL EXPLORATION IN THE GULF. THE PROBLEM
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WITH THIS APPROACH IS THE DIFFICULTY WE WOULD HAVE IN INDUCING EGYPT TO NEGOTIATE ON THE SUBJECT. WE COULD POINT OUT TO THE EGYPTIANS THAT THEY DID DISCUSS THE SUBJECT WITH ISRAEL IN THE JOINT COMMISSION LAST MAY, THEREBY SUGGESTING THAT A PRECEDENT EXISTS, AND THAT THEY HAVE ACKNOWLEDGED THE FACT OF ISRAELI CONTROL OVER A PART

OF THE GULF IN THEIR DEALINGS WITH AMOCO, WHICH THEY COULD ALSO DO IN TALKING WITH THE ISRAELIS WITHOUT ALTERING THEIR LEGAL POSITION.

18. (3) A LONGER-TERM COMPROMISE. YOU MAY CONCLUDE THAT THE U.S. HAS NO CHOICE BUT TO INSIST ON ISRAELI AGREEMENT NOT TO INTERFERE WITH AMOCO'S ACTIVITIES IN KEY AREAS EAST OF THE MEDIAN LINE. THESE WOULD ENCOMPASS ABOUT SIX TO EIGHT BLOCKS MOST OF WHICH STRADDLE OR ARE JUST EAST OF THE MEDIAN LINE. ACCESS TO THESE KEY SITES WOULD KEEP AMOCO BUSY FOR THE NEXT SEVERAL YEARS OR SO.

19. ISRAEL MAY NOT AGREE TO SUCH A REGIME WITHOUT BROAD CONCESSIONS BY THE U.S. AND, AT LEAST THROUGH SILENT ACQUIESCENCE, BY EGYPT. FROM RECENT STATEMENTS EMANATING FROM ISRAELI CABINET MEETINGS, TO THE EFFECT THAT NOTHING CAN TAKE PLACE EAST OF THE MEDIAN LINE WITHOUT ISRAEL'S PERMISSION, IT SEEMS THAT THE ISRAELIS ARE MOST INTERESTED IN GAINING CLEAR U.S. ACCEPTANCE--AT LEAST IMPLICIT--OF THEIR DE FACTO CONTROL. AMOCO'S AGREEMENT TO SEEK ISRAELI PERMISSION, RATHER THAN SIMPLE NOTIFICATION AS AT PRESENT, MIGHT BE SIGNIFICANT ENOUGH TO ISRAEL IN PSYCHOLOGICAL TERMS TO ELICIT THE GOVERNMENT'S "PERMISSION" FOR AMOCO TO PROCEED WITH AT LEAST SOME OF ITS PLANS AND TO ENDURE THE DOMESTIC CRITICISM THAT SUCH A CONCESSION MIGHT GENERATE.

20. REALISTICALLY, SUCH A PACKAGE WOULD PROBABLY ALSO HAVE TO INCLUDE TACIT AGREEMENT ON OUR PART NOT TO OPPOSE ISRAEL'S OWN EXPLORATION PLANS IN THE REMAINDER OF THE GULF WATERS UNDER ITS CONTROL. WE COULD HEDGE SUCH A CONCESSION WITH THE CAVEAT THAT WE WOULD MAINTAIN OUR LEGAL POSITION AND MIGHT HAVE TO SUPPORT EVENTUAL EGYPTIAN AND AMOCO CLAIMS FOR COMPENSATION FOR ANY OIL THUS EXTRACTED.

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21. THE CONCESSIONS ON THE U.S./EGYPTIAN SIDE POSITED BY THE ABOVE-DESCRIBED SCENARIO MAY EXCEED THE BOUNDS OF REALISM. THE U.S. WOULD HAVE TO BE PREPARED TO AMEND OR AT LEAST SUSPEND ITS LEGAL POSITION THAT ISRAEL HAS NO RIGHT TO REGULATE ECONOMIC ACTIVITY IN THE GULF BEYOND THREE MILES OFFSHORE. IN ALL LIKELIHOOD WE WOULD ALSO HAVE TO SHELVE ANY INTENTION TO OPPOSE ACTIVELY ISRAEL'S OWN OIL EXPLORATION IN THE GULF, WHICH IS CLEARLY ILLEGAL IN OUR VIEW. A FURTHER CONCESSION WOULD BE IMPLICIT IN OUR PRESSING FOR ACCESS ONLY TO PRE-1967 CONCESSIONS, THUS TACITLY ACCEPTING ISRAEL'S DISTINCTION BETWEEN PRE-WAR CONCESSIONS, WHICH THEY CLAIM TO REGARD AS VALID, AND POST-WAR CONCESSIONS, THE VALIDITY OF WHICH THEY REJECT.

22. THE FAR MORE BITTER PILL, HOWEVER, FOR EGYPT TO

SWALLOW WOULD BE FOR EGYPT TO HAVE TO ACKNOWLEDGE ISRAELI CONTROL OF HALF OF THE SOUTHERN GULF OF SUEZ, AND MOST PROBABLY, TO STAND HELPLESSLY BY AS ISRAEL EXPLORES FOR AND BEGINS TO EXTRACT OIL FROM THE GULF; THIS MAY WELL BE MORE THAN EGYPT FEELS IT CAN TOLERATE. ON THE OTHER HAND, SINCE, IN COLDLY REALISTIC TERMS, EGYPT IS PROBABLY POWERLESS TO PREVENT THIS IN ANY CASE, IT MAY BE ABLE TO RATIONALIZE CUTTING ITS LOSSES BY GAINING UNENCUMBERED ACCESS FOR AMOCO TO A VERY VALUABLE SLICE OF THE GULF FLOOR. THE CRITICAL FACTOR MIGHT BE THE COMPANY'S ESTIMATE OF THE VALUE OF THE OIL THAT WOULD FLOW TO EGYPT UNDER SUCH AN ARRANGEMENT. IN OTHER WORDS, DEPENDING ON THE AMOUNTS INVOLVED, ECONOMICS COULD CONCEIVABLY PREVAIL OVER POLITICS IN THIS CASE, ALTHOUGH THE POLITICAL PRICE IS OBVIOUSLY HIGH.

23. IN THIS SCENARIO, AMOCO IS NOT CONCEIVED OF AS AN INDEPENDENT ACTOR, BUT RATHER AS WHOLLY DEPENDENT ON THE ATTITUDE OF EGYPT. IT IS HIGHLY UNLIKELY THAT AMOCO, OR FOR THAT MATTER THE U.S. GOVERNMENT, COULD ACCEDE TO AN ARRANGEMENT ACTIVELY OPPOSED BY EGYPT.

24. (4) NO RESOLUTION; PROBABLE CONFRONTATION. IF ISRAEL SHOWS NO GIVE IN THE POSITION IT TOOK IN THE SEPTEMBER 16-17 TALKS, WE COULD CONSIDER ENDING OUR DISCUSSION OF THE PROBLEM WITH ISRAEL AND LETTING EVENTS
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TAKE THEIR OWN COURSE. THE DANGER WITH THIS IS THAT EGYPT MAY VERY WELL CARRY THROUGH WITH ITS THREAT TO CONFRONT ISRAELI HARASSMENT WITH ITS OWN GUNBOATS, AN ENGAGEMENT IN WHICH BOTH IT AND SINAI II WOULD PROBABLY SUFFER SERIOUSLY. WE WOULD FIND OURSELVES IN THE ONEROUS POSITION OF

HAVING TO CHOOSE BETWEEN PUBLIC SUPPORT OF EGYPT AND AN AMERICAN OIL COMPANY AGAINST ISRAEL, OR A DIFFICULT U.S. SILENCE. MOREOVER, EGYPT MAY SEE ITS RECOURSE AS NOT LIMITED TO REACTION ON THE SPOT, SINCE FAHMY HAS ALREADY TALKED ABOUT VARIOUS OTHER STEPS, INCLUDING CLOSING THE CANAL TO ISRAELI CARGOES AND SCRAPPING OTHER SINAI II UNDERTAKINGS. A FURTHER COST TO US WOULD BE THAT, EVEN IF WE SUPPORTED EGYPT AND AMOCO BUT WERE UNABLE TO BUDGE ISRAEL, OUR STANDING IN EGYPTIAN EYES WOULD SUFFER.

25. (5) ISRAELI CAPITULATION TO U.S. PRESSURE. WE COULD ELECT NOT TO OFFER ANY OF THE ABOVE CONCESSIONS BUT TO STAND ON PRINCIPLE AND ATTEMPT TO ACHIEVE OUR OBJECTIVES, OR SOME PART THEREOF, THROUGH THE APPLICATION OF VARIOUS FORMS OF PRESSURE. THE PRESSURE REQUIRED WOULD PROBABLY BE ENORMOUS. IT IS DOUBTFUL, EVEN IF THIS WERE NOT A BAD TIME IN DOMESTIC POLITICAL TERMS, THAT WE WOULD WISH TO EXPEND SO MUCH AMMUNITION AND STIR UP SUCH ISRAELI

RESISTANCE ON AN ISSUE RELATIVELY MARGINAL IN RELATION TO THE LARGER PROBLEM OF MOVING THE MIDDLE EAST PARTIES IN 1977-1978 TOWARD A COMPREHENSIVE SETTLEMENT.

26. IF WE DECIDE TO PURSUE THIS COURSE, A NUMBER OF LEVERS COULD BE APPLIED SHORT OF MAJOR PRESSURES, ALTHOUGH THEY PROBABLY WOULD NOT BE SUFFICIENT. THE MERE THREAT OF BAD PUBLICITY IN THE U.S. AND DAMAGE TO THE ISRAELI IMAGE IS ONE. BUT ISRAEL FEELS IT HAS A STRONG LEGAL CASE AND THAT IT COULD WEATHER A PROPAGANDA BATTLE WITH US AT A LOWER COST THAN CONCESSIONS IN THE GULF. IT UNDOUBTEDLY CALCULATES THAT THE IMAGE OF U.S. SUPPORT FOR EGYPT AND AN AMERICAN OIL COMPANY AGAINST ISRAEL IS NOT ONE THE ADMINISTRATION WOULD RELISH. OTHER TACTICS THAT COULD BE EMPLOYED INCLUDE FOOT-DRAGGING OR OUTRIGHT REFUSAL TO PROCEED WITH THE OIL SUPPLY CONTINGENCY AGREEMENT OR THE SLOWDOWN OF ARMS DELIVERIES. THE THREAT TO CONSIDER
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SERIOUSLY THE DISPATCH OF A U.S. NAVAL VESSEL TO PROTECT AMOCO'S OPERATIONS FROM ISRAELI HARASSMENT, AS A MEANS OF AVOIDING MORE VOLATILE EGYPTIAN-ISRAELI NAVAL CONFRONTATION, MIGHT BE MORE PLAUSIBLE THAN AN ARMS DELIVERY OR OIL SUPPLY THREAT, BUT OBVIOUSLY WOULD RAISE MAJOR POLITICAL DIFFICULTIES.

27. ALTHOUGH THIS EXTENDS BEYOND THE IMMEDIATE PROBLEM, WERE WE TO DECIDE ACTIVELY TO OPPOSE ISRAEL'S OWN OIL EXPLORATION ACTIVITIES IN OCCUPIED EGYPTIAN TERRITORY,

ONSHORE AS WELL AS OFFSHORE, A NUMBER OF TACTICS ARE CONCEIVABLY AVAILABLE. THESE INCLUDE ACTIVE PARTICIPATION IN POSSIBLE AMOCO LEGAL ACTION AGAINST U.S. FIRMS CONTRACTING WITH ISRAEL FOR EXPLORATION, EMBARGO OF OIL-PROSPECTING AND -EXTRACTING EQUIPMENT TO ISRAEL, AND DEDUCTION OF THE VALUE OF SUEZ OIL EXTRACTED BY ISRAEL FROM OUR ECONOMIC ASSISTANCE.

28. RECOMMENDATION:

THAT YOU INDICATE WHICH APPROACH, OR COMBINATION OF APPROACHES, AMONG THE FOLLOWING YOU PREFER. WE WILL ON THE BASIS OF YOUR GUIDANCE THEN DRAFT APPROPRIATE TALKING POINTS FOR YOUR MEETINGS WITH ALLON AND FAHMY.

(1) AMOCO IS PERMITTED TO DRILL AT 304.1 IN RETURN FOR OUR AGREEING NOT TO PRESS ISRAEL FOR ADDITIONAL SITES FOR A NUMBER OF MONTHS. (COMMENT: THIS WOULD BE THE EASIEST SOLUTION, BUT ISRAEL MAY NOT FIND THIS PERIOD OF RESPITE SUFFICIENT. ISRAEL MIGHT ALSO BE RELUCTANT TO AGREE FEELING THAT WE WERE ATTEMPTING TO PUT THE ISSUE OFF UNTIL AFTER OUR NATIONAL ELECTIONS WHEN ISRAEL MAY CALCULATE

THAT ITS BARGAINING POWER WOULD BE DIMINISHED. THIS SOLUTION, ON THE OTHER HAND, IS LIKELY TO BE ACCEPTABLE TO BOTH AMOCO AND EGYPT BECAUSE THE MORATORIUM ON DRILLING BEYOND 304.1 WOULD BE A LIMITED PERIOD ONLY AND WOULD PERMIT AMOCO TO GET ON WITH ITS IMMEDIATE DRILLING PLANS.)

(2) AMOCO STARTS TO EXPLOIT SITE 304.1 IN EXCHANGE FOR OUR AGREEING TO TAKE THE POSITION THAT EGYPT SHOULD
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NEGOTIATE DIRECTLY WITH ISRAEL ON FURTHER AMOCO DRILLING. (COMMENT: THE ISRAELIS MIGHT BUY THIS IDEA, BUT IT WOULD BE VERY DIFFICULT TO SELL TO THE EGYPTIANS, SINCE IT IMPLIES RECOGNITION OF ISRAELI CONTROL OVER VIRTUALLY HALF OF THE GULF OF SUEZ IN ITS SOUTHERN HALF. THIS PROPOSAL, HOWEVER, MIGHT BE WORTH PROBING WITH FAHMY. ITS IMPLEMENTATION COULD TURN A POINT OF SHARP TENSION BETWEEN ISRAEL AND EGYPT INTO ANOTHER STEP IN THE PEACE PROCESS IN THE MIDDLE EAST.)

(3) AMOCO ACTIVITY IS UNHINDERED IN LIMITED AREAS EAST OF THE MEDIAN LINE IN EXCHANGE FOR BROAD CONCESSIONS BY THE U.S. AND ACQUIESCED IN BY EGYPT. THIS WOULD INCLUDE OUR AGREEING THAT ISRAEL'S PERMISSION IS NECESSARY FOR AMOCO DRILLING EAST OF THE MEDIAN LINE AND OUR PROBABLY BEING UNABLE TO PREVENT ISRAELI DRILLING. (COMMENT: THIS IS A PROPOSAL THAT WOULD CLEARLY APPEAL TO THE

ISRAELIS. IT WOULD, HOWEVER, BE SEEN AS CAPITULATION BY THE EGYPTIANS, ALTHOUGH THEY COULD BE TEMPTED BY GETTING THE ECONOMIC BENEFITS OF SOME DRILLING ON THE EASTERN SIDE OF THE MEDIAN LINE OVER THE NEXT FEW YEARS.)

(4) IN VIEW OF ISRAELI INTRANSIGENCE, HOLD TO OUR POSITION, RECOGNIZING THIS COULD LEAD TO EGYPTIAN-ISRAELI CONFRONTATION IN WHICH THE LOGIC OF OUR POSITION WOULD INDICATE WE SHOULD SUPPORT EGYPT POLITICALLY.

(5) OBTAIN ISRAELI AGREEMENT TO DESIST FROM HARASSMENT BY USING INTENSE U.S. PRESSURE.

29. DRAFTED: NEA/IAI:GDKULICK/NEA/EGY:GRBEYER:SEB

APPROVED: P:PCHABIB

CLEARED: NEA:ALATHERTON L:DSMALL S/S-BRIDGES

S - AHERNE

ROBINSON

SECRET

<< END OF DOCUMENT >>

Message Attributes

Automatic Decaptioning: Z
Capture Date: 16 SEP 1999
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: TOSEC, DISPUTE SETTLEMENT, HARASSMENT, OFFSHORE DRILLING, DIPLOMATIC DISCUSSIONS
Control Number: S7619969
Copy: SINGLE
Draft Date: 23 SEP 1976
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ShawDG
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976STATE236620
Document Source: ADS
Document Unique ID: 00
Drafter: NEA/IAI:GDKULICK:NEA/EGY:GRBEYER:LAB
Enclosure: n/a
Executive Order: 11652 GDS
Errors: n/a
Film Number: D760360-0110
From: STATE
Handling Restrictions: n/a
Image Path:
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Office: ORIGIN SS
Original Classification: SECRET
Original Handling Restrictions: EXDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 10
Previous Channel Indicators:
Previous Classification: SECRET
Previous Handling Restrictions: EXDIS
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: ShawDG
Review Comment: n/a
Review Content Flags:
Review Date: 28 JUL 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <28 JUL 2004 by coburnhl>; RELEASED <28 JUL 2004 by ullricre>; APPROVED <04 NOV 2004 by ShawDG>
Review Markings:

Margaret P. Grafeld
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US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ACTION MEMORANDUM: MEETINGS WITH FAHMY AND
TAGS: PFOR, ENRG, IS, EG, US, AMOCO, (ALLON, YIGAL), (FAHMY, ISMAIL)
To: SECRETARY
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006